

RESULT PREVIEW ✓

Pharmaceuticals

Profits decline on account of MTM losses...

Our universe of pharma coverage companies is likely to register YoY growth of ~24% on the topline while their consolidated bottomline is likely to grow at ~33% YoY to Rs 865 crore. Increasing contribution from regulated markets is likely to provide a fillip to the overall sector revenue as well as their EBIDTA margins. Consolidated EBIDTA margins of our coverage companies are likely to expand by 107 basis points on account of higher contribution from regulated markets and higher revenue generations from Para IV ANDAs.

Para IVs to increase visibility

Though the consolidated EBIDTA margins of our coverage companies has seen an improvement by 107 basis points on account of increased visibility on Para IV ANDA and excellent revenue contribution from the regulated markets of US (especially to Sun Pharma and Glenmark Pharma), their higher exposure to the US dollar is likely to raise pressure on EBIDTA margins. Higher exposure to the dollar (as the rupee is depreciating against the dollar), is likely to increase the MTM provision (especially to Biocon). We expect the sector to witness good revenue growth driven by continued strong momentum in export earnings coupled with the weakening rupee against dollar. On the domestic business, we expect the domestic revenue to witness lower growth vis-à-vis exports.

Q3FY09 likely to see increasing EBIDTA

We expect the sectoral performance to remain slightly positive primarily due to the easing in raw material prices (for most players). However, hedging losses arising from forward contracts is expected to impact the operating profitability of the sector. Further, cooling of the cost of funds globally would help most of the companies in the sector to post a better performance in the quarter as compared to Q2FY09. However, the global financial crisis and notional forex losses of many industry players will act as a negative for the sector. In Q3FY09, excellent revenues from regulated markets and increasing contribution from exclusivity sales would provide a fillip to the sector. Currency fluctuation would remain the key concern for the quarter under review once again. During September-December 2008, the rupee depreciated by ~4% against the dollar. As most of the players in the pharma space either hold FCCBs or foreign currency loans or both in their books, we expect margins to remain suppressed but better than the first and second quarter of FY09.

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Price performance (%)

	1M	3M	6M	12M
Alembic	10	-16	-26	-66
Biocon	34	-28	-35	-60
Dishman	15	-51	-50	-65
Glenmark	-7	-36	-52	-50
IPCA Labs	11	-32	-32	-45
Piramal	13	-20	-18	-30
Sun Pharma	1	-29	-21	-7

Source: Company, ICICIdirect.com Research

Exhibit 1: Result Summary

Rs Crore	Net Sales			EBIDTA			Adjusted Net Profit		
	% Change			% Change			% Change		
	Q3FY09E	YoY	QoQ	Q3FY09E	YoY	QoQ	Q3FY09E	YoY	QoQ
Alembic	268.00	4.81	-22.25	43.07	29.91	-27.25	22.00	0.38	46.67
Biocon	332.28	40.00	-24.36	61.88	5.00	-12.28	39.87	-5.81	-21.00
Dishman Pharma	256.70	24.27	1.86	48.77	-6.84	-2.07	34.32	32.95	1.52
Glenmark Pharma	585.27	27.01	4.57	169.03	19.91	0.49	121.01	49.25	3.11
IPCA Labs	340.34	16.00	-2.09	65.51	20.76	31.55	45.43	15.78	24.47
Nicholas Piramal	764.41	4.39	-13.56	125.61	5.02	-11.48	77.20	47.49	5.18
Sun Pharma	1165.76	45.00	-1.02	558.84	50.00	3.87	525.28	127.45	2.43
Total	3712.76	24.17	-7.31	1072.70	28.96	-0.44	865.11	32.82	3.07

Source: Company, ICICIdirect.com Research

Alembic (ALECHE)

- We expect Alembic to post sales of Rs 268 crore, with EBIDTA margins better than the previous two quarters. Net revenues are expected to grow at 5% YoY led by good ramp up in the export business while the domestic business is likely to clock sales of Rs 190 crore.
- Robust growth in exports is likely to push the EBIDTA albeit at a lower pace. We expect EBIDTA margins to expand marginally by 23 bps.
- Despite an increase in EBIDTA, net profit growth is likely to remain flat due to higher outgo on interest expenses and depreciation.

Exhibit 2: Quarterly estimate summary

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1FY09	FY09E
Sales	268.00	255.71	344.70	4.8%	-22.3%	571.00	1059.47
EBITDA	43.07	33.15	59.20	29.9%	-27.2%	81.50	155.90
EBITDA Margin	16.1%	15.8%	17.2%	0.2%	-1.1%	14.3%	14.7%
PAT	22.00	21.92	15.00	0.4%	46.7%	10.30	79.77
PAT Margin	8.2%	8.6%	4.4%			1.8%	7.5%
EPS	1.59	1.58	1.08			0.74	5.76

Source: Company, ICICIdirect.com Research

* FY09E does not includes forex losses

Dishman Pharma (DISHPHA)

- We expect the revenues of Dishman Pharma to remain flat QoQ at Rs 256 crore. However, on a YoY basis, the sales are expected to grow by 24% primarily driven by the CRAMS business. QUATS are likely to remain flat YoY.
- Higher input cost is likely to keep EBIDTA margins under pressure. We expect EBIDTA margins to decline by ~8 bps QoQ.
- Bottomline is likely to grow by ~7% YoY on account of lower capex and 24% rise in sales. Easing of interest cost is likely to relieve the pressure on net profit.
- Although raw material cost has started cooling off, Dishman would start to benefit only from the next quarter (Q4FY09) of FY09. Hence, margins are likely to remain under pressure.

Exhibit 3: Quarterly estimate summary

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1FY09	FY09E
Sales	256.70	206.57	252.02	24.3%	1.9%	487.90	1052.67
EBITDA	48.77	52.35	49.80	-6.8%	-2.1%	116.10	222.57
EBITDA Margin	19.0%	25.3%	19.8%	-6.3%	-0.8%	23.8%	21.1%
PAT	34.32	32.05	2.80	7.1%	1125.5%	30.40	186.29
PAT Margin	13.4%	15.5%	1.1%			6.2%	17.7%
EPS	4.25	3.97	0.35			3.77	23.08

Source: Company, ICICIdirect.com Research

* FY09E does not includes forex losses

IPCA Labs (IPCLAB)

- IPCA is likely to report a topline growth of 16% YoY to Rs 340 crore led by its integrated business model and diversified product mix. The generic and branded formulation business is expected to lead the growth.
- EBITDA margins are likely to improve by 80 bps at 19.2% from 18.5% on a YoY basis as most of the foreign currency liabilities will get converted to rupee, thereby leading to expansion in the EBITDA margins.
- Depreciation of the rupee is further likely to help the margins expansion.
- During Q2FY09, Ipca incurred forex losses to the tune of Rs 23.6 crore. This quarter, also, we expect the company to incur translation losses, which will suppress the margins
- Net profit is likely to expand by 21% YoY on account of sales growth and EBITDA margin expansion.

Exhibit 4: Quarterly estimate summary

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1FY09	FY09E
Sales	340.34	293.40	347.60	16.0%	-2.1%	642.50	1287.14
EBITDA	65.51	54.25	83.20	20.8%	-21.3%	142.80	245.49
EBITDA Margin	19.2%	18.5%	23.9%	0.8%	18.5%	22.2%	19.1%
PAT	45.43	37.54	36.50	21.0%	24.5%	60.10	155.40
PAT Margin	13.3%	12.8%	10.5%			9.4%	12.1%
EPS	18.17	15.01	14.60			24.04	62.16

Source: Company, ICICIdirect.com Research

Piramal Healthcare (NICPIR)

- We expect the topline of Piramal Healthcare to grow by 4.4% YoY to Rs 764 crore.
- Core EBITDA margins are expected to improve on account of lower R&D expenditure and raw material cost.
- The bottomline is expected to show a robust improvement of 6.1% YoY with the net profit margin remaining positive YoY, excluding MTM provisioning.
- During Q2FY09, Piramal Healthcare incurred forex loss of Rs 40.81 crore out of which Rs 12 crore was the realised loss. This quarter, also, we expect the company to incur forex losses, which will exert pressure on the margins.

Exhibit 5: Quarterly estimate summary

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1FY09	FY09E
Sales	764.41	732.30	884.30	4.4%	-13.6%	1597.60	3043.33
EBITDA	125.61	119.60	141.90	5.0%	-11.5%	247.93	583.10
EBITDA Margin	16.4%	16.3%	16.0%	0.6%	2.4%	15.5%	19.2%
PAT	77.20	72.76	73.40	6.1%	5.2%	141.48	422.70
PAT Margin	10.1%	9.9%	8.3%	0.2%	1.8%	8.9%	13.9%
EPS	3.69	3.48	3.51			6.77	20.22

Source: Company, ICICIdirect.com Research

* FY09E does not includes forex losses

Glenmark Pharma (GLEPHA)

- We expect Glenmark Pharma's topline to grow at 27% YoY on account of stellar growth in the US dosage form market and the domestic business.
- EBITDA margins are likely to decline YoY by 170 bps to 28.9% on account of change in revenue mix. In the corresponding quarter of the previous year, the company had very good margins from an exclusivity product.
- The bottomline is expected to grow by at around 4.9% to Rs 121 crore.

Exhibit 6: Quarterly estimate summary

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1FY09	FY09E
Sales	585.27	460.82	559.72	27.0%	4.6%	1020.54	2541.05
EBITDA	169.03	140.96	168.20	19.9%	0.5%	309.16	1008.80
EBITDA Margin	28.9%	30.6%	30.1%	-1.7%	-1.2%	30.3%	39.7%
PAT	121.01	115.37	117.36	4.9%	3.1%	232.74	757.76
PAT Margin	20.7%	25.0%	21.0%			22.8%	29.8%
EPS	5.04	4.81	4.89			9.69	31.56

Source: Company, ICICIdirect.com Research

* FY09E does not includes forex losses

Biocon (BIOCON)

- We expect the topline of Biocon to grow at a robust rate of 40% to Rs 332 crore (including Axicorp).
- As Axicorp is in the trading business where EBITDA margins are very low and the company is likely to get robust contribution from Axicorp, we expect EBITDA margins to witness a decline of 620 bps to 18.6% YoY.
- The bottomline is expected to decline by ~25% to Rs 40 crore.
- Syngene's operations are likely to put up a better performance in this quarter vis-à-vis the previous quarter.

Exhibit 7: Quarterly estimate summary

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1FY09	FY09E
Sales	332.28	237.34	439.30	40.0%	-24.4%	706.20	1338.49
EBITDA	61.88	58.93	70.54	5.0%	-12.3%	140.20	321.98
EBITDA Margin	18.6%	24.8%	16.1%	-6.2%	2.6%	19.9%	24.1%
PAT	39.87	53.35	50.47	-25.3%	-21.0%	40.00	188.69
PAT Margin	12.0%	22.5%	11.5%			5.7%	14.1%
EPS	1.99	2.67	2.52			2.00	9.43

Source: Company, ICICIdirect.com Research

* FY09E does not includes forex losses

Sun Pharma (SUNPHA)

- We expect the net sales of Sun Pharma to grow at an excellent rate of ~45% YoY to Rs 1165 crore primarily on account of excellent growth in the formulation and API export. Lower competition for generics Protonix and Ethylol even after the end of exclusivity is likely to push the dosage form export.
- EBITDA margins are likely to improve by ~160 basis points to 47.9% in Q3FY09 largely on account of generics protonix and Ethylol.
- The bottomline of the company is likely to move up by 65% to Rs 525 crore in Q3FY09.

Exhibit 8: Quarterly estimate summary

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1FY09	FY09E
Sales	1165.76	803.97	1177.80	45.0%	-1.0%	2219.60	4379.84
EBITDA	558.84	372.56	538.00	50.0%	3.9%	1075.90	2037.39
EBITDA Margin	47.9%	46.3%	45.7%	1.6%	2.3%	48.5%	46.5%
PAT	525.28	318.35	512.80	65.0%	2.4%	1014.20	2052.43
PAT Margin	45.1%	39.6%	43.5%			45.7%	46.9%
EPS	27.16	16.46	26.51			52.44	106.12

Source: Company, ICICIdirect.com Research

Coverage Universe Valuation table

Exhibit 9:

				M Cap	EPS			P/E (x)			EV/EBITDA (x)			ROCE			ROE		
	CMP	TP	Rating	(Rs Cr.)	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Alembic	32.5	63	OP	450.0	8.7	5.8	5.8	3.8	5.6	5.6	3.2	3.0	1.6	18.0%	14.2%	19.3%	24.9%	14.8%	21.9%
Biocon	117.5	212	OP	1175.0	21.5	9.4	16.3	5.5	12.5	7.2	4.3	7.0	5.3	16.3%	14.6%	17.7%	16.3%	17.2%	19.1%
Dishman Pharma	132.2	346	OP	954.1	14.1	23.1	31.0	9.3	5.7	4.3	11.1	6.4	4.2	10.4%	15.4%	17.3%	26.5%	30.2%	28.9%
Glenmark Pharma	274.5	UR	UR	14257.1	26.3	31.6	43.3	10.4	8.7	6.3	19.0	16.5	11.9	34.1%	31.0%	31.4%	49.1%	38.5%	35.8%
IPCA Labs	376.1	530	OP	940.1	57.6	62.2	85.8	6.5	6.0	4.4	6.0	5.4	4.0	20.0%	19.4%	23.1%	24.5%	22.0%	24.3%
Nicholas Piramal	230.1	268	P	4809.1	13.1	20.2	26.7	17.6	11.4	8.6	11.8	8.3	4.9	20.2%	24.4%	30.5%	20.7%	25.2%	25.7%
Sun Pharma	1042.8	UR	UR	21581.6	71.8	85.2	77.7	14.5	12.2	13.4	13.8	11.2	12.1	29.0%	27.0%	22.0%	31.0%	29.0%	22.0%

H: Hold, UP: Underperformer, OP: Outperformer, P: Performer, UR: Under Review

Source: Company, ICICIdirect.com Research

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